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Uzbekistan, Republic of

Cotton and Products

Annual

2003

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Report Highlights:

Uzbekistan's MY 2003/04 cotton crop has been hampered by continued heavy rainfall which necessitated considerable replanting and delayed the crop for at least a month. Weather conditions in the Fall will be critical to final production results. At this time, MY 2003/04 production is forecast at 940,000 MT with exports reaching 700,000 MT.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Ankara,[TU1] UZ

PRODUCTION

Historically, cotton has been the salvation and the ruin of Uzbekistan. Cotton has traditionally been the primary cash crop in Uzbekistan and an important source of employment and foreign exchange. At the same time, the environmental effects of years of cotton production have caused an environmental and health disaster in the country. Cotton is grown in a crescent from the Fergana Valley, extending south along the Tien Shan Mountains to Samarkand and Bukhara, and then west along the Amu Darya River. The planting season extends from March through April. Harvest begins in mid-August and continues through October. Almost all of the crop is flood irrigated.

MY 2002/03 cotton production continued its downward trend due primarily to a continued drought which resulted in acute water shortage in several cotton growing regions. Secondly, heavy rainfall during planting negatively impacted the crop. According to official statistics, Uzbek farmers harvested 3.2 MMT of seed cotton in MY 2002/03 producing 1.0 MMT of lint. For MY2003/04, the official target for area was reduced to 1.4 MHA with the production target also decreased to 3.6 MMT. According to the Uzbek Ministry of Agriculture and Water Resources, cotton planted under plastic increased to 320,000 hectares in MY 2003/04, compared to 259,000 hectares last year which allowed planting to begin earlier.

Table 1: Cotton Production, Supply and Demand

PSD Table						
Country	Uzbekistan, Republic of					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2001	Preliminar	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	1400000	1400000	1388000	1388000	0	1359000
Area Harvested	1400000	1400000	1388000	1388000	0	1359
Beginning Stocks	161771	161771	166771	166771	166771	166771
Production	1015000	1015000	1000000	1000000	0	940000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	1176771	1176771	1166771	1166771	166771	1106771
Exports	760000	760000	750000	750000	0	700000
USE Dom. Consumption	250000	250000	250000	250000	0	250000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	250000	250000	250000	250000	0	250000
Ending Stocks	166771	166771	166771	166771	0	156771
TOTAL DISTRIBUTION	1176771	1176771	1166771	1166771	0	1106771

This year's rainy spring created many problems for farmers during planting and significantly delayed sowing in most regions. According to meteorological sources, Uzbekistan received nearly twice the normal precipitation in March and April. As a result, as much as 50 percent of the total planted area had to be re-sown in 8 regions. This replanting will

consequently lead to a further delay of crop maturation by approximately one month. However officials are less pessimistic claiming that there was very little damage from heavy rains and all necessary replanting was successfully completed in time.

Table 2: FY03/04 Cotton Area and Targeted Seed Cotton Production by Region

REGION	Area (Ha)	Production (MT)
Karakalpakstan Republic	73,000	141,000
Andijan region	107,300	310,000
Bukhara region	125,200	400,000
Djizakh region	100,500	225,000
Kashkadarya region	164,000	420,000
Navoi region	43,000	120,000
Namangan region	94,000	270,000
Samarkand region	105,000	225,000
Surkhandarya region	120,000	380,000
Syrdarya region	112,000	249,000
Tashkent region	110,000	280,000
Fergana region	112,200	320,000
Khorezm region	93,000	260,000
TOTAL	1,359,200	3,600,000

Production Policy

Following independence, the Government of Uzbekistan embarked on a policy of self-sufficiency in wheat by shifting land out of cotton. Until 2000, the policy was to maintain cotton at 1.5 MHA and production at 4.0 MMT of seed cotton (equivalent to 1.2 MMT of lint). Better yields rather than larger area was to lead to increased cotton production. Uzbekistan, however, has not been able to reach its cotton production target for the past several years for a number of reasons, including weather, inadequate production incentives, inadequate and low-quality inputs (especially seeds) and a deteriorating infrastructure, especially irrigation. Although Uzbekistan now is nearly self-sufficient in wheat, for MY2003/04 the government took a decision to further reduce targeted cotton area and seed cotton production to 1.359 million hectares and 3.6 MMT, respectively in order to increase wheat production. Sources believe this shift is largely in response to chronic water shortages and other problems that have hampered cotton production for the past several years.

As in recent years, Uzbekistan is planning to increase the area sown to quicker-maturing varieties and discontinue some of the medium-term varieties. In the future, the area under long staples varieties will reportedly be reduced modestly, but new varieties are to be tested in Navoi and Bukhara with a view to expanding long staple production to those two regions.

Recently, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. According to the Uzbek Cotton Ginning Association, reforms are focused on three areas. First, the replacement of inferior cotton varieties, particularly those with a high micronaire, with better varieties. Currently, only about 20 percent of cotton area is sown with high quality varieties. Secondly, the government seeks to modernize Uzbekistan's 145 ginning plants by attracting foreign investment. Presently, more than 80 percent of the nation's ginning equipment dates back to the Soviet era and needs to be replaced. Finally, the government wants to develop a system of accurate and timely market information so farmers can better react to market conditions and can better service buyers' specific cotton needs. Officials indicate the government's plan is to attract foreign investment and technology to improve seed production and marketing.

In December of 2002 the Uzbek government adopted a new decree which allows farmers to sell up to 50 % of their cotton output either domestically or abroad. This decree theoretically should bring the government's monopoly on the cotton market to an end. However, as of today, no concrete practical mechanisms were developed in order to start realizing this decree into life. Therefore, despite the appearance of reform, the state continues to play a major role in cotton production and marketing. The state determines area, sets production targets and prices, supplies inputs and procures and markets the bulk of the crop.

MY 2003/04 procurement prices both for medium and long staple seed cotton as usual will be set by the government around August 10 at the start of the harvest. Reportedly, new crop prices should be about 10 - 15 percent higher than MY2002/03.

CONSUMPTION

The State Cotton Ginning Association (UZKHLOPKOPROM) is the joint-stock company (51 percent state owned) that procures and gins all state-order cotton. About 90 percent of Uzbekistan's gins are saw gins and the remainder are either roller gins or combination gins. In addition to Uzkhlopkoprom's 127 gins, the Ministry of Agriculture and Water Resources operates another 18 gins, mainly on their elite seed farms. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems.

All cotton lint is still sold either to the trading companies of the Agency of Foreign Economic Relations (AFER) for export or to Uzbeklegprom, the association of joint-stock textile enterprises. Current domestic consumption is estimated at 250,000 MT and is forecast to remain almost at the same level in MY 2003/04. Observers expect consumption to increase gradually over the next several years as several joint-venture South Korean and Turkish textile mills come on line. South Korean "Kabool Textiles Company" remains one of the most active foreign investors in Uzbekistan's textile industry. South Korean investors already have constructed several textile mills. Most of these mills are mainly involved in producing yarn for export.

The government hopes to expand domestic consumption and estimates the overall capital investment required by the textile industry between 2003 and 2005 is more than \$1.0 billion in order to increase the quality and expand the range of production. Officials forecast that by 2005, yarn production will increase by 78,850 MT, grey goods by 45 million square meters (MM²) and finished cloth by 65.5 MM². Currently, the total production capacity of all operating textile mills equals to 130,000 tons of yarn and 500 MM² of different fabrics.

STOCKS

There are no official or reliable data on stocks. Stock numbers in this report are calculated as a residual.

TRADE

Uzbekistan's cotton exports have declined over the past several years due to decreased production. MY 2002/03 cotton exports are estimated at 750,000 MT. The export forecast for MY 2003/04 is 700,000 MT, assuming normal weather for the remainder of the growing season. In spite of new regulations, the GOU still controls exports of both state-order cotton and over-quota free cotton through the trading companies of AFER, which coordinates sales, export prices and shipments. Russia is the traditional buyer of Uzbek cotton, although South East Asia is becoming a much more important market.

Most cotton is sold to international shippers through negotiated sales although recently AFER has launched several small auctions with limited success. In spite of that, according to the new resolution of the Cabinet of Ministers, this year about 30,000 tons of cotton have been allocated for sale by Uzauctionsavdo.

The government is continuing to change its cotton grading system to approximate the U.S. system in order to eliminate a major source of contract disputes. Several years ago, the government established the National Cotton Certification Center (SIFAT), as part of a World Bank project. SIFAT has purchased 16 HIV labs, and is installing these labs in each cotton-producing region.

In to improve cotton marketing GOU is also trying to find new routes for cotton transportation. One of the recent development has been the use of Kazakhstan's Aktau sea port (on the Caspian coast) in order to transport Uzbek cotton to Iran via Kazakhstan. The first cargo ship carrying Uzbek cotton left Aktau port in December 2002. Previously, Uzbek cotton used to be shipped to countries in the Persian Gulf by railway through Turkmenistan.

The government also is interested in working with international cotton traders and other entities to invest in the cotton sector, including production, ginning, warehousing and transport. Officials believe greater cooperation and partnerships in the industry will enhance Uzbekistan's ability to produce and market its cotton. Observers, however, indicate that the government will need to undertake some very basic legal and economic reforms, including currency convertibility, transparency and sanctity of contracts, as prerequisites to any significant investments. Currently, there are three foreign investors in cotton industry, one American, two French and one Swiss company. The American company, the Central Asian American Seed Company, invested more than \$10 million in cotton seed production. They are working in cooperation with several cotton farms in the Syrdarya region by providing credit and ginning the output themselves. A year ago, after long and hard negotiations with the GOU, the company was been granted permission to

market its lint independent of AFER.

Table 3: Cotton Exports

Export Trade Matrix			
Country	Uzbekistan		
Commodity	Cotton	Units:	Metric tons
Time period	Aug01-Jul02		Aug02-May03
Exports for:	2001		2002
U.S.	0	U.S.	0
Others		Others	
Russia	280000	Russia	200000
South Korea	76000	South Korea	41000
Germany	30000	Germany	14000
France	42000	France	23000
Poland	17000	Poland	11000
Turkey	12000	Turkey	8000
Italy	62000	Italy	38000
Vietnam	22000	Vietnam	4000
Brazil	15000	China	11000
Taiwan	21000	Brazil	10000
China	20000	Taiwan	12000
Portugal	13000	Portugal	6500
Thailand	12000	Thailand	8500
Total for Others	622000		387000
Others not Listed	138000		213000
Grand Total	760000		600000

Note: Precise official data is not available. Because most of Uzbekistan's cotton is sold to international cotton shippers, rather than end-users, it is difficult to determine destination. The above data is based on information from trade and other sources.

